



# THE UNIVERSITY *of* EDINBURGH

## Finance

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Endowment Fund for the Year  
to 31 July 2014

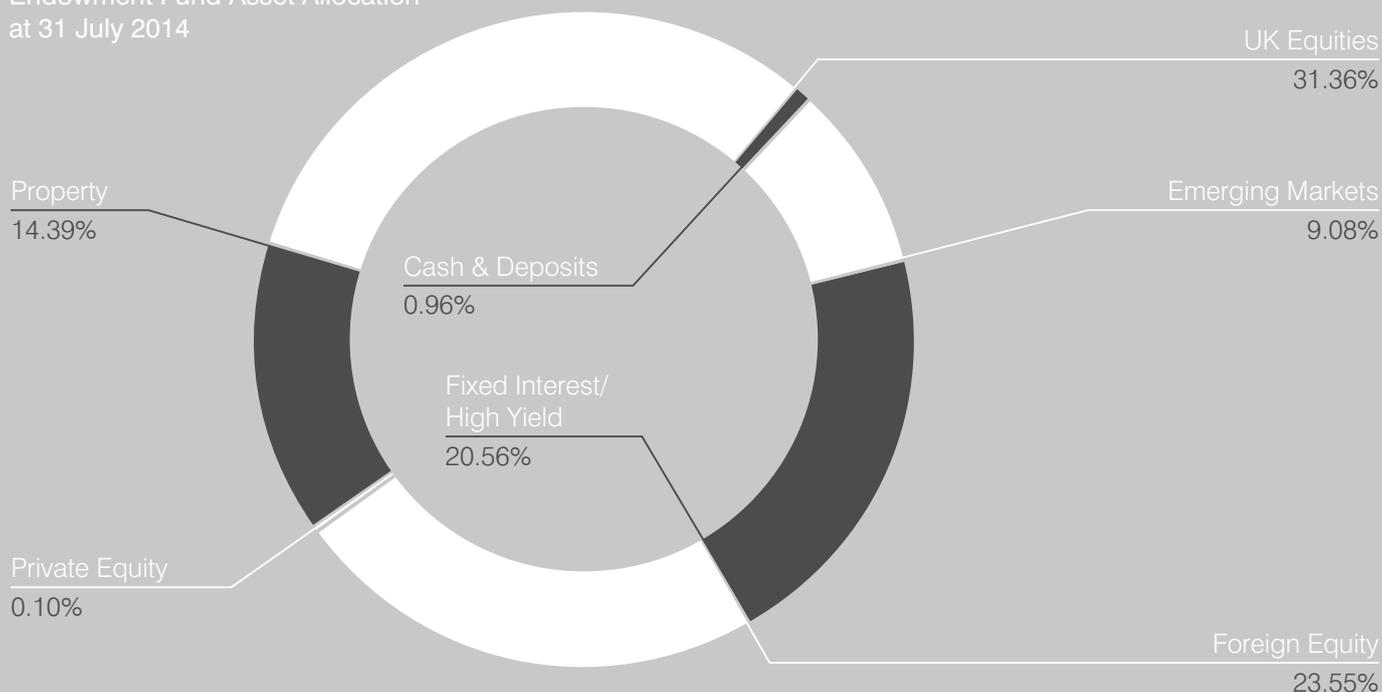
[www.ed.ac.uk](http://www.ed.ac.uk)

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# The University of Edinburgh Endowment Fund

3rd largest in the UK

Endowment Fund Asset Allocation  
at 31 July 2014



## £7.9m

The value of Endowment expenditure  
in 2013-14.

## 7.6%

The annual return on endowment  
investments in 2013-14

## 781

The number of endowments held  
in the fund.

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To view our report online, please visit:  
<http://www.accounts.finance.ed.ac.uk/reports>

# Fund Management and History

## Investment Committee

The Investment Committee of the University is responsible for the oversight and strategic direction of the endowment investments, including the Andrew Grant Bequest Charity. The University of Edinburgh Court appoints members to the Investment Committee drawn from both Court members and external investment professionals.

## Key Roles and Responsibilities

- Sets investment policy and strategy
- Determines asset allocation
- Identifies Fund Managers
- Monitors fund performance
- Advises University Court on its investment programme

Since 2003, the University has had a Socially Responsible Investment (SRI) Policy which has endorsed an approach based on 'engagement' with companies on ethical issues. In January 2013 the University became the first in Europe to sign up to the United Nations Principles of Responsible Investment which provides a framework for the University to take environmental, social and corporate governance (ESG) considerations into its investment strategies.

This year the University launched a review of its SRI policy and is now working to redraft it.

Further information on the remit and role of the Investment Committee is at: <http://www.ed.ac.uk/schools-departments/finance/about/sections/financial-accounting/investment>.

# 225

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There have been 225 new bequests since 2009 at a value of £26.4m.

## Investment Committee Members at 31 July 2014

Richard Davidson (Convener)  
Maxine Cuffe  
Bill Hughes  
Dr Chris Masters  
Les Matheson  
Stuart Monro  
Nigel Paul

## at 1 August 2015

Richard Davidson (Convener)  
Bill Hughes  
Maxine Cuffe  
Dr Chris Masters  
Carolyn Aitchison  
Mark Connolly  
Doreen Davidson  
Dr Anne Richards  
Hugh Edmiston

## Fund Managers

Baillie Gifford  
BlackRock  
Hermes  
Royal London Asset Management

## Investment Adviser

Jagger & Associates

## Custodian

BNY Mellon

## Auditors

PricewaterhouseCoopers LLP



### Unit Price History

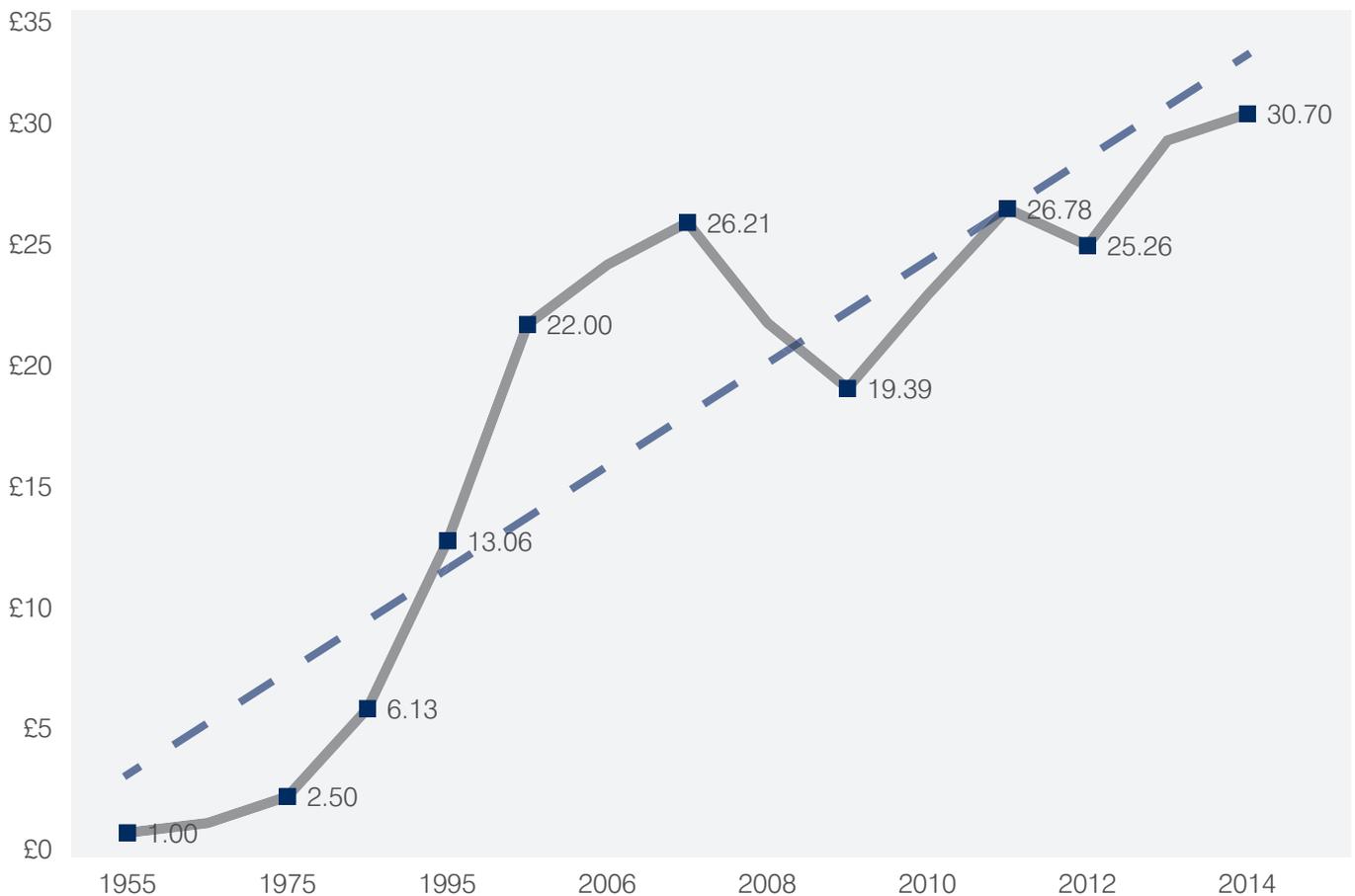
The Endowment Fund has detailed historical records which show the value of funds endowed, investment returns and areas of expenditure.

The investment of the University's individual endowments is pooled and the individual endowments participate by holding units in the fund and receiving an income distribution on the units held.

The capital value of the fund and the individual endowments is measured by reference to the unit price and detailed records are available which show the capital growth of the fund for nearly 60 years. In addition the fund yields an annual income return.

The fund has a long term relationship with Baillie Gifford Fund Managers who have been providing investment management advice since 1968.

### Unit Price Performance



# Investment Objective

The investment objective of the Endowment Fund is to grow the value of the fund and maintain the capital in real terms over the long term whilst providing an annual income yield to support the activities of the numerous endowments.

The Endowment Fund’s assets are managed by four external fund managers. There is a commitment to invest further in private equity via Old College Capital which is the venture investment arm of the University of Edinburgh providing growth and development finance into early- and mid-stage spin-out and start-up companies as part of syndicated venture capital rounds.

The largest portion of the Fund’s assets continue to be invested in equities given their potential for delivering good long term real returns.

## Investments Held

	£m
Baillie Gifford	130
BlackRock	58
Deaconess	13
Cash (including 0.3m in Old College Capital)	2
Hermes	29
RLAM	60
<b>Total</b>	<b>292</b>

## % Holding by Fund Manager 2013/14

44.41%	Baillie Gifford
19.91%	BlackRock
4.49%	Deaconess
0.62%	Edinburgh University
20.56%	RLAM
0.10%	Old College Capital
9.91%	Hermes - HPUT



# Market Highlights

## Economic Overview

(Provided by Jagger and Associates)

The world economy has been in a sustained recovery over the last year. Monetary policy has been a major support, with central banks committed to maintaining exceptionally low interest rates for a considerable period and, in the case of Japan and the US, making further asset purchases (quantitative easing). This was followed by unprecedented action by the European Central Bank, which cut its deposit rate below zero to try to stimulate bank lending. There have been a number of headwinds preventing a stronger rebound. The most notable example was the lingering effects of the European sovereign debt crisis, although the euro area has emerged intact from recession, while the UK has seen a marked turnaround, led by a revival in the housing market.

The US has grown steadily, despite the severe weather moderating the pace of growth at the start of 2014. In both the US and UK, the central banks have signalled a shift towards a gradual tightening of monetary policy provided the recovery is maintained. In China, the economy has regained momentum after a period of tightening credit conditions and a slowdown in business investment. Whilst the targeted stimulus measures combined with a pickup in external demand have had the desired effect in China, growth in other emerging economies has disappointed relative to expectations.

## Equities

Developed markets have generally recorded gains over the last 12 months, as various central bank policy initiatives have fostered optimism amongst investors that global economic growth will recover, albeit modestly. European markets ended the period higher, despite weakness late on, buoyed by a long-awaited improvement in economic indicators and supportive monetary policy, with peripheral and Southern European markets benefiting from reduced risk of a break-up in the euro zone. US equities have performed very well, with ample liquidity, an upsurge in new listings and merger and acquisition activity helping markets.

In the UK, the more domestically focused mid-cap stocks and smaller companies outperformed the blue chip FTSE 100, as the UK economic recovery gained momentum. However, the strength of sterling against other major currencies has substantially diluted returns from international equity markets for UK-based investors. Despite a package of measures to revive the domestic economy, a hike in the national sales tax unsettled investors in Japanese equities and with the yen declining to a five-year low, the market recorded a loss in sterling terms. In contrast, smaller Pacific markets have fared relatively well as Chinese economic indicators have improved of late although other emerging markets have struggled to make headway, as international investors have withdrawn funds on concerns over current account financing issues and conflict in the Ukraine.

# Market Highlights

## Bonds

Over the last year, higher rated government bonds such as US treasuries, UK gilts and German bunds have recorded gains underpinned by demand from risk-averse investors and low interest rates. There was some volatility in the US treasury market after the US Federal Reserve (Fed) signalled its intention to begin scaling back quantitative easing, although it refrained from ‘tapering’ until the start of 2014. Previously distressed ‘peripheral’ European sovereign bond markets have rallied strongly, as the ECB lowered its benchmark interest rate in an attempt to encourage lending to businesses. Corporate bonds have performed relatively well, as low interest rates have caused investors to search for yield, favouring areas such as subordinated financials, cyclicals and high yield bonds that carry greater credit risk. Emerging bond markets have been volatile on concerns over the unwinding of the Fed’s quantitative easing programme, with rising inflation in a number of economies and the pronounced weakness of several local currencies, further weighing on sentiment.

## Property

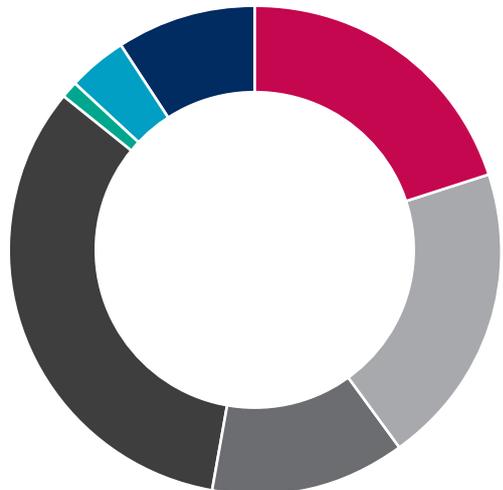
International investors have continued to value the steady income stream that commercial property delivers. In particular, demand for high quality real estate in prime, city centre locations has remained robust.



## Spend by College/Support Group

	£m
Medicine and Veterinary Medicine	1.6
Science and Engineering	1.0
Humanities and Social Sciences	1.6
University Secretary’s Group	0.7
Information Services Group	0.3
Corporate Service Group	0.1
Central	1.6
<b>Total</b>	<b>7.9</b>

## Spend by College/Support Group 2013/14



33%	College of Medicine & Veterinary Medicine
13%	College of Science & Engineering
20%	College of Humanities & Social Sciences
9%	University Secretary's Group
4%	Information Services Group
1%	Corporate Service Group
20%	Central

# Fund Activity

## Five Year View

	2009/10	2010/11	2011/12	2012/13	2013/14
Market value	£200m	£236m	£238m	£284m	£298m
Return p.a.	24.6%	15.1%	1.3%	21.2%	7.6%
Number of endowments	741	749	760	778	781
Income yield	£7.4m	£7.7m	£7.7m	£8.3m	£10.4m
Annual expenditure	£6.0m	£6.0m	£8.0m	£8.5m	£7.9m

### Financial Year to 31 July 2014

- Added £1.5m to 53 endowments
- 3 of which were from new donors
- Income of £10.4m was generated of which £7.9m was spent by schools and colleges
- Fund return 7.6% p.a.

Summarised information on endowment investments can be obtained from the following address:  
<http://www.ed.ac.uk/schools-departments/finance/about/sections/directorate/foi>.

### Financial Years 2009/10–2013/14

- Added 225 new bequests at a value of £26.4m
- Income of 41.5m was generated of which £36.4m was spent by schools and colleges
- Average 5 year fund return 13.6% p.a.
- Average 10 year fund return is 9.1% p.a.

# Fund Activity

% Holdings by Fund Manager	31 Jul 2012	31 July 2013	31 July 2014
Baillie Gifford	87.3%	45.6%	44.4%
BlackRock	0.0%	27.0%	19.9%
Deaconess House	0.0%	2.2%	4.5%
Cash	4.8%	2.1%	0.7%
Hermes	0.0%	9.2%	9.9%
RLAM	0.0%	13.9%	20.6%
Legal and general	7.9%		

Top Holdings in Baillie Gifford Portfolio	%
Ashtead	1.6
Svenska Handelsbanken	1.6
Investor	1.5
Total	1.4
GBL	1.3
Prudential	1.2
Berkshire Hathaway B	1.2
St James Place	1.1
Atlas Copco B	1.1

Spend by Purpose	£m
Contributions to research, capital support and other	2.7
Prizes and scholarships	2.4
Chairs/lectureships	2.1
General fund	0.7
Total	7.9

Source: Baillie Gifford Sept 2014

## Spend by Purpose 2013/14

34%	Other
30%	Prizes/Scholarships
27%	Chair/Lectureships
9%	General



## Deaconess House

Deaconess House is a major new £16m investment for the fund and provides Student Accommodation in a joint project with UoE Deaconess Ltd.

Deaconess House is a combination of a newly refurbished old traditional building combined with a newly built block.

Deaconess has 280 single bedrooms. Each flat has three, five or six bedrooms. There are also 35 self-contained studio apartments. It opened for Students in September 2014.



### History - Deaconess House (formerly Deaconess Hospital)

In 1888 the Very Rev. Professor A. H. Charteris laid before the General Assembly his scheme for the organisation of women's work in the Church. This scheme was to include the Women's Guild and the Order of Deaconesses. His scheme having been approved, Professor Charteris acquired the house in the Pleasance that had once belonged to Lord Carnegie. On this site he proposed to found institutions for the training of Deaconesses for missionary work both at home and abroad.

In 1889 St. Ninian's Mission opened. It provided practical training in mission work among the overcrowded tenements of the Pleasance, the Cowgate and the adjacent closes.

The Deaconess Hospital was opened in 1894 in a building next to St. Ninian's Mission. It provided practical training in nursing for Deaconesses, each of whom spent a year there as part of her training. Deaconesses who wished to become fully qualified nurses spent a further three years in the hospital's Nurses' Training School.

In 1912 as a tribute to Professor Charteris, the Charteris Memorial Church was opened next to his two foundations.

Although the hospital's primary purpose was to provide a training school for missionary Deaconesses, it also provided a much needed medical service to the local community in one of the poorest districts.

The original hospital had 24 beds. Extensions in 1897 and 1912 brought this total up to 42. Emergency beds added during World War I further increased the number to 68, but these were reduced after 1918, so that in 1920 there were 50 beds including "open-air" beds and children's cots. There were five wards: Charteris, named after the hospital's founder; Houldsworth, named after the Misses Houldsworth of Ayr who were generous subscribers; the Children's Ward which had 18 beds, six of which were on the balcony; Deaconess for church workers; and Moray. There was also a busy out-patient department.

In 1934 the hospital was closed to allow for a major reconstruction. The site was extended by the purchase of the adjoining Police Station and of old buildings to the rear. A new hospital block was built, named the Lord Sande Memorial Wing after Lord Sande, for many years Chairman of the hospital's Board of Management. The hospital was re-opened on 1st December 1936 by the Duke and Duchess of York, the Children's Ward being renamed the Princess Elizabeth Children's Ward in memory of the occasion. One of the wards in the new wing was named the Women's Guild Ward to commemorate the large endowment by that organisation.

In addition to the general hospital functions, the Deaconess provided a home visiting or District service. A regular system of instruction in District Nursing and Midwifery was carried out by the staff nurse in charge of District work.

In 1948, with the introduction of the National Health Service, the Deaconess became part of Edinburgh Southern Hospitals group of South Eastern Regional Hospital Board. In 1974 it came under the South Lothian District of Lothian Health Board, and in 1984 it joined the Royal Infirmary of Edinburgh and Associated Hospitals Unit. The hospital closed in 1990.

# Investment Fund Key Performance Indicators

## Total Return

Year Ended 31 July	2014 £'000	2013 £'000
Incoming resources		
Increase in market value of investments	10,756	41,233
Investment income for the year	10,416	8,283
	21,172	49,516
Transferred from General Fund	-	3,818
New endowment investment	1,544	2,524
Endowment income re-investment	2,648	1,443
Increase in cash balances held by fund manager	155	17
	25,519	57,318
Outgoing resources		
Disbursement of endowment capital to the University	(1,395)	(4,435)
Fund management and custody charges (capital)	(520)	(417)
Income distributable to the University	(10,176)	(8,023)
Fund management and custody charges (revenue)	(240)	(260)
	(12,331)	(13,135)
Net increase in resources	13,188	44,183
Opening Fund	278,619	234,436
Closing Fund	291,807	278,619
Overall return for the year	7.6% p.a.	21.1% p.a.

Overall return is calculated by looking at the movement in market value and income received and shows the actual rate of return from our investments over the financial year.

## Unit Price of Endowment

Balance Sheet as at 31 July	2014 £'000	2013 £'000
Investment Assets	291,807	278,619
Revenue cash at Fund Managers	718	19
Net Accrued income and expenses	1,854	2,208
	2,572	2,227
Creditors		
Due to University	(2,572)	(2,227)
Total endowment assets	291,807	278,619
represented by		
University endowment funds under management	291,807	278,619
Units at 31 July	9,504,973	9,412,715
Closing Unit Price	30.700	29.600

Investments in the Endowment Fund are held on a unit price based on the capital value of the fund, excluding any revenue adjustments. The unit price of the endowments is used to monitor the capital performance over time.

# Investment fund key performance indicators

## Yield

Income & Expenditure Year Ended 31 July	2014 £'000	2013 £'000
INCOME		
Investment income	10,416	8,283
Total Income	10,416	8,283
EXPENDITURE		
Distributable to the University	10,176	8,023
Fund management and custody charges (revenue)	240	260
Total Expenditure	10,416	8,283
Income per Unit (p)	109.6	88.0
Closing yield	3.6%	3.0%

The yield shows the annual income return on our investments expressed as a percentage based on the investment's market value at the end of the financial year.

# Notes

